

R. ANDREW GERMAN
MANAGING COUNSEL
PRICING & PRODUCT DEVELOPMENT



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POSTAL REGULATORY
COMMISSION
OFFICE OF THE SECRETARY

January 20, 2009

Hon. Shoshana M. Grove, Secretary
Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, D.C. 20268-0001

Dear Ms. Grove:

In accordance with Commission Rule 3050.26, with respect to demand analyses which incorporate volume and price data from FY 2009, the Postal Service is providing the enclosed two CD-ROMs. The contents of these CD-ROMs update the demand analyses for categories of mail and services provided to the Commission last year by letter to your predecessor dated January 16, 2009. In addition, pursuant to a provision of Rule 3050.26 which was not in effect last year, the CD-ROMs also include volume forecasts (based on the underlying demand analyses) for FY 2010.

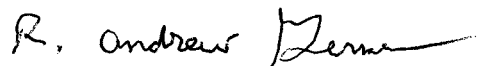
The first CD-ROM provides materials relating to mail categories which fall into the Market Dominant domain, while the second CD-ROM provides materials relating to mail categories in the Competitive domain. In general, the Postal Service maintains its position that materials relating to Competitive categories of mail are internal documents of a commercially sensitive nature that under good business practices should not be disclosed publicly, and thus would be exempt from public disclosure pursuant to 5 U.S.C. § 552(b)(3) and 39 U.S.C. § 410(c)(2). Accordingly, the Postal Service requests that the Commission withhold all of the materials within the Competitive CD-ROM from public disclosure. 39 U.S.C. § 504(g). On the other hand, the materials presented within the Market Dominant CD-ROM are appropriate for public disclosure.

If you have any questions or concerns about the Postal Service's position on disclosure of any information provided today or subsequently, please contact me. As in the past, the Postal Service expects that any FOIA request for the records and information provided at this time will entail consultation between the Postal Service and the Commission, before any records are made publicly available. This approach accords with Department of Justice guidance and with our understanding of the Commission's current policy regarding such requests, which I described in my letter to your predecessor dated March 15, 2002.

475 L'ENFANT PLAZA SW ROOM 6616
WASHINGTON DC 20260-1137
(202) 268-3034
FAX: (202) 268-6187

Attachment One to this letter describes the files provided on the CD-ROM for Competitive products and the CD-ROM for Market Dominant products. With respect to the Competitive product material, I have enclosed as Attachment Two to this letter the "Application of the United States Postal Service for Non-Public Treatment of Materials." Pursuant to 39 C.F.R. § 3007.21, this document describes the material provided on the non-public CD-ROM, and presents the statutory basis for the Postal Service's request for confidentiality, as well as a description of the harm that would result from disclosure.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. Andrew German".

R. Andrew German

Enclosures

ATTACHMENT ONE

**Listing of Files Being Provided to the Postal Regulatory Commission
Documenting the United States Postal Service's Demand Equation
Estimation and Volume Forecasting Methodologies**

Prepared for the Postal Regulatory Commission
January, 2010

ATTACHMENT ONE

The following is a list and brief overview of the files being provided to the Postal Regulatory Commission at this time, documenting the Postal Service's econometric demand equation methodology and providing a volume forecast for Fiscal Year 2010.

These files are divided into two folders as follows. Each folder is provided to the Commission as a separate CD-ROM.

1. Competitive

This folder contains four Microsoft Word documents and one sub-folder which document the Postal Service's econometric demand equations for Competitive mail products.

The first Word document, 'Changes.vs.2009.doc' describes changes to the Postal Service's Competitive econometric demand equation specifications from those filed in January, 2009.

The second document, 'DataDictionary.doc' provides a glossary of terms used throughout this documentation.

The third document, 'DemandEquations-Jan2010.doc' provides a detailed presentation of the exact specifications for all of the Postal Service's demand equations for Competitive mail products with full econometric output.

The fourth document, 'DemandEquationTables.doc' presents summary tables of key econometric output for all of the Postal Service's demand equations for Competitive mail products.

Sub-Folder: Regressions

The files used to generate the Postal Service's econometric demand equations for Competitive products are presented in the sub-folder Regressions. This folder contains two sub-sub-folders, **Domestic** and **International**.

i. Domestic

Econometric demand equations for Domestic Competitive products are estimated using the statistical software EViews (version 6.0). The program which generates the econometric output is DEQN.prg. The files PRE_EQS.prg and PROGGUTS.prg are called from DEQN.prg and contain the bulk of the methodological framework used for estimation. The equation-specific explanatory variables, restrictions, et al., are identified in the VOL*.prg files. A separate VOL*.prg file exists for each of the Postal Service's unique demand equations. A glossary of suffixes for the VOL*.prg files can be found in the Word document, DataDictionary.doc.

The data used to estimate these demand equations is read into EViews from the Excel spreadsheet, RCFDATA.xls. The econometric output generated by EViews can be found in the text file, OUT_COMP.txt.

ii. International

Econometric demand equations for International mail products are estimated using the statistical software STATA. The procedures used to do so are found in 10 program files within the International folder: DATA_REGRESS.do, MAIN.do, NLOUTPUT.do, NLREGS.do, RECURSE.do, REG_ALL.do, REG_CHECK.do, REGS.do, TRENDMATRIX.do, and VOL_COM.do. The last of these is specific to the International Commercial mail demand equation, identifying the specific explanatory variables, restrictions, et al. associated with this equation.

The data used to estimate these equations is in the **Input** sub-folder of the **International** folder, in the CSV file REG_DATA.csv.

The econometric output generated by STATA can be found in the Output sub-folder of the International folder, in the STATA file, REGOUTPUT.smcl.

Sub-Folder: Volume Forecasts

This folder contains two files which document the Postal Service's volume forecasts for Competitive products. The file, 'VolumeForecastMethodology.doc' is a Microsoft

Word document which describes the Postal Service's methodology for making volume forecasts.

The file, 'VF-Jan2010.xls' is a Microsoft Excel spreadsheet which generates volume forecasts for the four quarters of the current Postal Fiscal Year (FY 2010) for the Postal Service's competitive products as well as those special services which use Competitive volumes as explanatory variables (Insurance, Delivery Confirmation, and Signature Confirmation).

2. Market Dominant

This folder mirrors the **Competitive** folder only for Market Dominant mail products. Like the **Competitive** folder, this folder contains four Microsoft Word documents and one sub-folder. These files document the Postal Service's econometric demand equations for Market Dominant mail products.

The first Word document, 'Changes.vs.2009.doc' describes changes to the Postal Service's Market Dominant econometric demand equation specifications from those filed in January, 2009.

The second document, 'DataDictionary.doc' provides a glossary of terms used throughout this documentation.

The third document, 'DemandEquations-Jan2010.doc' provides a detailed presentation of the exact specifications for all of the Postal Service's demand equations for Market Dominant mail products with full econometric output.

The fourth document, 'DemandEquationTables.doc' presents summary tables of key econometric output for all of the Postal Service's demand equations for Market Dominant mail products.

Sub-Folder: Regressions

The files used to generate the Postal Service's econometric demand equations for Market Dominant products are presented in the sub-folder Regressions. This folder contains two sub-sub-folders, **Domestic** and **International**.

i. Domestic

Econometric demand equations for Domestic Market Dominant products are estimated using the statistical software EViews (version 6.0). The program which generates the econometric output is DEQN.prg. The files PRE EQS.prg and PROGGUTS.prg are called from DEQN.prg and contain the bulk of the methodological framework used for estimation. The equation-specific explanatory variables, restrictions, et al., are identified in the VOL*.prg files. A separate VOL*.prg file exists for each of the Postal Service's unique demand equations. A glossary of suffixes for the VOL*.prg files can be found in the Word document, DataDictionary.doc.

The data used to estimate these demand equations is read into EViews from the Excel spreadsheet, RCFDATA.xls. The econometric output generated by EViews can be found in the text file, OUT MD.txt.

ii. International

Econometric demand equations for International mail products are estimated using the statistical software STATA. The procedures used to do so are found in 10 program files within the International folder: DATA REGRESS.do, MAIN.do, NLOUTPUT.do, NLREGS.do, RECURSE.do, REG ALL.do, REG CHECK.do, REGS.do, TRENDMATRIX.do, and VOL FCI.do. The last of these is specific to the First-Class International mail demand equation, identifying the specific explanatory variables, restrictions, et al. associated with this equation.

The data used to estimate these equations is in the **Input** sub-folder of the **International** folder, in the CSV file REG DATA.csv.

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The econometric output generated by STATA can be found in the Output sub-folder of the International folder, in the STATA file, REGOUTPUT.smcl.

Sub-Folder: Volume Forecasts

This folder contains two files which document the Postal Service's volume forecasts. The file, 'VolumeForecastMethodology.doc' is a Microsoft Word document which describes the Postal Service's methodology for making volume forecasts. The file, 'VF-Jan2010.xls' is a Microsoft Excel spreadsheet which generates volume forecasts for market-dominant products for the four quarters of the current Postal Fiscal Year (FY 2010). Note, however, that for certain Special Services forecasts (i.e., Insurance, Delivery Confirmation and Signature Confirmation) which are based in part on forecasts of Competitive Products, those forecasts cannot be generated from this spreadsheet. Since the Postal Service treats the forecasts of Competitive Products as confidential, and since certain Competitive Products forecasts are necessary inputs to the generation of forecasts for these particular Special Services, these Special Services forecasts are *displayed* in this spreadsheet, but cannot be *generated* by it. Instead, those forecasts can be generated within the Competitive Products forecasting spreadsheet, where they are linked to the requisite Competitive Product forecasts. In the Market Dominant forecasting spreadsheet, the affected forecast cells appear as values only, rather than as the outputs of a formula.

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APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,¹ the United States Postal Service (Postal Service) hereby applies for non-public treatment of certain materials filed under seal with the Commission. The materials consist of the demand analysis and forecasting materials, as required by 39 C.F.R. § 3050.26, for competitive products. This material is provided as a number of files on a CD-ROM. A corresponding public CD-ROM, containing similar information for market dominant products, is provided separately.

(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

The materials designated as non-public consist of information of a commercial nature that under good business practice would not be publicly disclosed. In the Postal Service's view, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3) and (4).² Because the portions of the materials that the Postal Service is applying to file only under seal fall within the scope of information not required to be publicly disclosed, the Postal Service asks the

¹ PRC Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, Docket No. RM2008-1, June 19, 2009.

² In appropriate circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

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Commission to support its determination that these materials are exempt from public disclosure and grant its application for their non-public treatment.

(2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;

The Postal Service is unaware of any third-party with a known proprietary interest in the material provided under seal in this instance.

(3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;

In connection with this application, the Postal Service has filed two CD-ROMs, one public, containing demand analysis and forecasting material for Market Dominant products, and one non-public, containing the same type of material for Competitive Products. A more complete description of the contents of the two disks can be found as Attachment One to the letter to which this application is presented as Attachment Two. The structure of the two sets of material is quite similar, with the only substantive difference being the specific demand equations and forecasts presented. The five demand equations presented within the Competitive materials are for:

1. Express Mail
2. Priority Mail
3. Parcel Select
4. Parcel Select Return Service
5. International Commercial Mail

Because the structure of the files on the two CD-ROMs is so similar, examination of the contents of the public CD-ROM should allow a person to understand the nature of the contents of the nonpublic CD-ROM, and evaluate accordingly.

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(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;

If the information that the Postal Service determined to be protected from disclosure due to its commercially sensitive nature were to be disclosed publicly, the Postal Service considers it quite likely that it would suffer commercial harm. This information is commercially sensitive, and the Postal Service does not believe that it would be disclosed under good business practices. Competitors could use recent volume data, estimated elasticities, and volume forecasts to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with potential customers, who would be able to ascertain critical demand information about relevant products (e.g., does the Postal Service consider the product to be price elastic; does the Postal Service expect demand for the product to be expanding or contracting). More broadly, interested parties could gain, at no effort or expense to themselves, valuable analytic information about the variables that the Postal Service considers important in evaluating market demand, and structure their strategic behavior accordingly. The Postal Service considers these to be highly probable outcomes that would result from public disclosure of the material filed non-publicly.

(5) At least one specific hypothetical, illustrative example of each alleged harm;

Harm: Competitors could use forecasted volume information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

Hypothetical: Demand analysis and forecasting material for competitive products is released to the public. Another delivery service's employee monitors the filing of this

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information and passes the information along to its sales and marketing functions. The competitor assesses the historic and projected volume trends. The competitor then targets its advertising and sales efforts at actual or potential customers in market segments where the Postal Service appears to expect to make headway, hindering the Postal Service's ability to reach out effectively to these customers.

Harm: Customers or competitors could use estimated price elasticities to guide their positions in NSA negotiations or price setting.

Hypothetical: Demand analysis and forecasting material for competitive products is released to the public. A customer preparing to negotiate an NSA with the Postal Service recognizes that the Postal Service considers demand for the product in question to be elastic (i.e., above unitary elasticity). On that basis, the customer pushes for deeper discounts than otherwise might seem achievable. The resulting lower rates generate less contribution from the NSA. Alternatively, a competitor could examine the cross-price elasticities and, in determining how to set its own annual price adjustments, could put a relatively larger share of the price increase on its product with the lower cross-price elasticity, and a relatively smaller share on its product with the higher cross-price elasticity. As a result, the Postal Service achieves less volume and revenue growth than it might have otherwise.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the portions of the materials filed non-publicly and relating to competitive products should be withheld from persons involved in competitive decision-making in the relevant markets for competitive delivery products (including private sector integrators and foreign postal administrations), as well as their consultants and attorneys. Additionally, the Postal Service believes that actual or

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potential customers of the Postal Service for these or similar products should not be provided access to the non-public materials.

(7) The length of time deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30. The Postal Service believes that the ten-year period of non-public treatment is sufficient to protect its interests with regard to the information it determined should be withheld due to commercial sensitivity.

(8) Any other factors or reasons relevant to support the application.

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.

